

systems limit both the marketplace options of firms and the administrative choices of governments. That is, in each country financial markets are one element that delimits the ways in which business and the state can interact. The structure of those markets at once influences the capacity of government to exert industrial leadership and the nature of the political conflicts that arise from its economic objectives. Very simply, in market economies where freely moving prices allocate goods and services, money is not only a medium of exchange but also a means of political and social control: it is one way of deciding who gets what. Therefore, by following the money flows in the market economy and in the institutions that structure that flow we can learn a great deal about the uses to which the society's resources are put, the people who make the allocative decisions, and the process through which control is obtained and exerted.

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*For my parents,
who always wanted me to be a scholar*

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Preface

The economic performance of all the advanced countries deteriorated during the 1970s, in many cases quite abruptly. This deterioration has provoked throughout the West a new debate about the proper role of government in the economy. Since solutions always depend on how one perceives a problem, it is not surprising that the sharply different explanations of our current troubles have produced sharply different prescriptions for resolving them.

This book offers an interpretation of contemporary economic difficulties and of the policy debate they have engendered in the advanced countries. It discusses why it has become harder to manage the thousands of micro-changes in production and products which are necessary for economic growth and why attempts to make such changes are met with growing political resistance. The book's general arguments are based on an analysis of the efforts of the governments of the larger advanced countries—the United States, Great Britain, France, West Germany, and Japan—to respond to shifting economic conditions in the years since the Second World War. The discussion focuses on the capacities of the various governments to intervene selectively to shape industrial outcomes and attempts to account for national differences in these capacities and in the strategies adopted. The book argues that there have been three distinct technical-political solutions to the problems of growth: state-led, market-led, and negotiated.

One element of the explanation of the differences in government capacities for industrial leadership is distinct to this book. I contend that an examination of national financial structures can illuminate both government economic strategies and the political conflicts that accompany industrial change. The particular arrangements of national financial